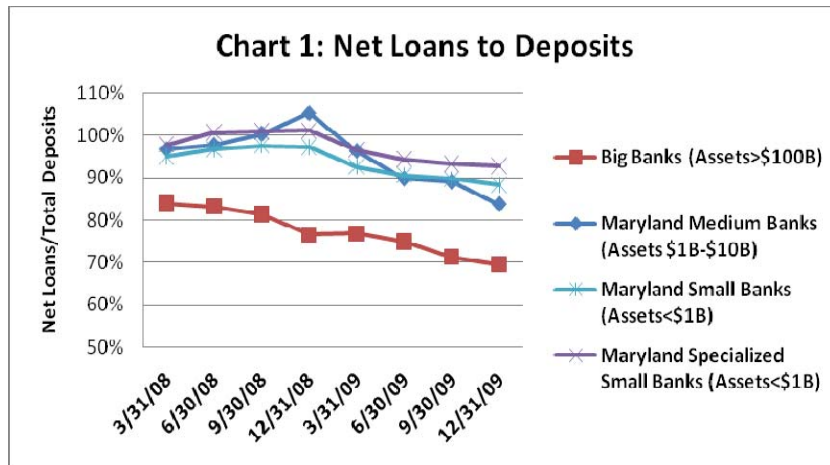


Estimating Job Effects of Moving Maryland Deposits from Large Banks to Community Banks

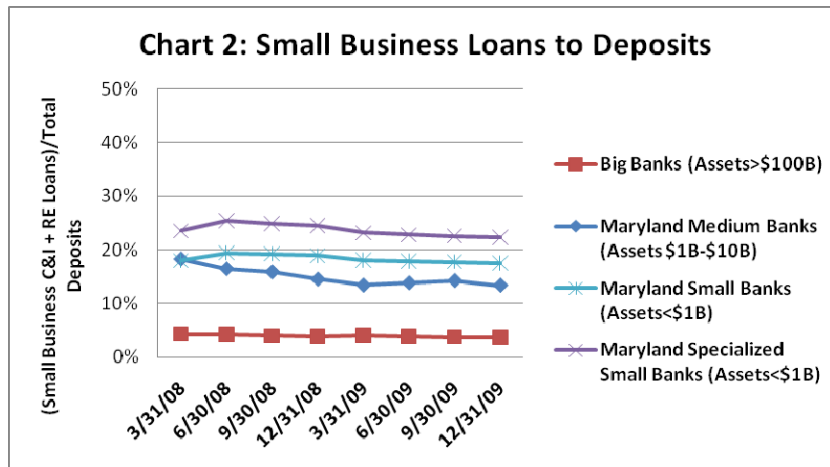
We estimate that every \$10 million in Maryland state deposits (primarily certificates of deposit) moved from out-of-state mega banks to smaller in-state banks is likely to create or retain between 6 and 11 in-state small business jobs (see Table 1). The more narrowly these funds are directed to the smallest banks (those with total assets <\$1B) and particularly to small banks that specialize in business lending, the greater the job effects per dollar moved. Based on assumptions described below, this yields an estimate of up to 1,900 additional jobs created or retained in Maryland if the state proceeds as planned.

<i>Table 1. Estimate of In-State Small Business Job Growth per \$10M Moved</i>	New In-State Loans per \$10M moved (thousands of \$)	New In-State Small Business Loans per \$10M moved (thousands of \$)	In-State Small Business Jobs Created or Retained per \$10M moved
Maryland Medium Banks (Assets \$1B-\$10B)	771.60	482.36	6.19
Maryland Small Banks (Assets <\$1B)	713.67	629.84	7.83
Maryland Specialized Small Banks (Assets <\$1B)	876.94	862.46	10.95



Job Creation per Dollars Moved

Based on FDIC quarterly data, we compared loan to deposit ratios (total and small business) between banks with more than \$100 billion in assets and banks with assets less than \$10 billion. We found that the medium and small banks had total lending rates that were 16 to 20 percentage points greater (see Chart 1) and small business lending rates 11 to 20 percentage points greater (see Chart 2) than the mega banks.



In order to better estimate the effect of moving deposits on small business lending, we discounted loans that would have been made without the new state deposits, loans that would have been made by other banks (except the mega banks), and loans that would be made to out-of-state clients.

Table 2. More Conservative Deposit Spread	New In-State Loans (thousands of \$)	New In-State Small Business Loans (thousands of \$)	In-State Small Business Jobs Created or Retained
Maryland Medium Banks (Assets \$1B-\$10B)	30309.76	18947.91	240
Maryland Small Banks (Assets<\$1B)	55324.36	48825.61	610
Maryland Specialized Small Banks (Assets<\$1B)	44309.46	43577.62	550

We then used Small Business Administration (SBA) data on 7(a) and 504 loans to estimate the number of direct jobs created or retained based on the amount of small business lending generated. We estimate in-state loan to job ratios of one job per \$78K-\$80K of small business loans.

Estimate of Total Potential In-State Job Creation

We performed a second set of calculations in an effort to estimate the possible aggregate impact of shifting state deposits in Maryland. Here, we attempted to approximate the amount of money that could be absorbed by medium and small in-state banks and to discount for their willingness to take on additional state funds. We used a 24% participation rate based on survey data, estimated bank capacity based on a safe spread of deposits used for state investments (the lesser of 150% of equity or 30% total state deposits), and an estimated safe limit of state deposits based on two capital ratios. This yields a total bank capacity of between \$1.2 billion and \$2.5 billion for all medium and small in-state banks.

Applying the loan to job estimates derived from the SBA numbers, we found that even with a relatively conservative limit on deposits in individual banks, the state could generate or retain roughly 800 to 900 in-state small business jobs (see Table 2) if all available deposits were shifted entirely to banks with less than \$10B in assets—and there was sufficient demand for loans from small businesses in the state. With a less conservative deposit strategy and sufficient demand for loans, job effects could be about twice that, around 1,500 to 1,900 jobs created or retained (see Table 3).

Table 3. Less Conservative Deposit Spread	New In-State Loans (thousands of \$)	New In-State Small Business Loans (thousands of \$)	In-State Small Business Jobs Created or Retained
Maryland Medium Banks (Assets \$1B-\$10B)	38564.53	24108.31	310
Maryland Small Banks (Assets<\$1B)	143734.95	126850.96	1580
Maryland Specialized Small Banks (Assets<\$1B)	94879.28	93312.20	1190

Conclusion

While the precise numbers are difficult to gauge with any certainty, it seems reasonable to conclude that there will be net positive job effects from moving state deposits from large, out of state banks to smaller, in-state banks. It is important to note that the estimates here do not reflect the sum total of the policy's expected economic benefits. These job estimates do not take into account indirect or induced economic effects of the increase in small business loans, nor do they factor in the economic effects of the increase in non-small business loans. Moreover, reducing state collateral requirements would presumably increase bank participation and thereby further increase both the economic and job creation effects of shifting deposits. Finally, we would expect similar job-creation effects in other states, though the numbers themselves are likely to vary depending on factors including the capacity of banks in those states, how the money is directed, and the collateral requirements for state money.